

VZCZCXRO4549
PP RUEHDE RUEHDH RUEHDIR
DE RUEHAM #1646/01 2041112
ZNY CCCCC ZZH
P 231112Z JUL 09
FM AMEMBASSY AMMAN
TO RUEHC/SECSTATE WASHDC PRIORITY 5560
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 1804
RUEHKO/AMEMBASSY TOKYO PRIORITY 0308
RUEHJM/AMCONSUL JERUSALEM PRIORITY 5588
RUEKJCS/SECDEF WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHLB/AMEMBASSY BEIRUT 3073
RUEHEG/AMEMBASSY CAIRO 4078
RUEHDM/AMEMBASSY DAMASCUS 4204

C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 001646

SIPDIS

STATE FOR NEA/ELA
STATE PLEASE PASS TO USAID
TREASURY FOR OTA

E.O. 12958: DECL: 07/16/2019

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [EAID](#) [JO](#)

SUBJECT: JORDAN'S BUDGET DEFICIT BALLOONS, A RESULT OF
GLOBAL CONDITIONS AND POOR PLANNING

REF: A. AMMAN 1339
 1B. AMMAN 612
 1C. AMMAN 611
 1D. AMMAN 472
 1E. AMMAN 136
 1F. 08 AMMAN 2982
 1G. 08 AMMAN 2669

Classified By: AMBASSADOR R. STEPHEN BEECROFT
FOR REASONS 1.5 (B) AND (D)

1. (C) Summary: The Government of Jordan (GOJ) has revised its projected year-end 2009 budget deficit from \$975 million to \$1.56 billion or 7.3% of GDP. GOJ officials have pointed to the global recession as a main cause for their fiscal dilemma, saying it has caused GDP growth to slow to 3.2%. GOJ officials expect that revenues will be 12% lower than initially projected by year end. While total domestic revenues grew 2.8% during the first half of 2009, slower growth, a 75% increase in capital expenditures and a 63% decline in foreign grants have caused the deficit to balloon.

PM Nader al-Dahabi publicly stated that cutting the deficit is a top GOJ priority. The GOJ has also sought budget support from the USG. Despite these fiscal weaknesses, other economic indicators are still solid, such as \$9 billion in foreign currency reserves, a significantly lower inflation rate, and notable decreases in the current account and trade deficits. End Summary.

Deficit Grows Beyond Expectations

2. (C) Dr. Ismail Zaghoul, Director General of the Budget Department of the Ministry of Finance (MOF), confirmed to EconOffs on July 6 that Jordan's \$8.69 billion budget for 2009 is facing an expected shortfall of \$1.56 billion for the year, about 7.3% of GDP, which eclipses the projected deficit of \$975 million or 5.5% of GDP (ref F). Zaghoul argued that the global economic slowdown was the main culprit causing Jordan's real GDP growth to slow down to 3.2% during the first quarter of 2009 from last year's growth rate of 8%. The stark budgetary picture, however, shows that the deficit in the first six months of the year had already reached \$760 million, a sum including expected but not yet realized foreign grants, whereas the same period in 2008 showed a deficit of \$54 million.

Expenditures at the Root of the Problem

13. (C) Minister of Finance Bassem Salem also painted a grim picture of the budget situation in a recent meeting with the Ambassador. Like Zaghloul, he highlighted that the revenue stream had been negatively affected by the global financial crisis as people were not buying products or real estate in Jordan. Indeed, MOF statistics show that revenue from sales taxes on goods and services did decline 3.1% to \$1.12 billion during January to June 2009, compared to \$1.16 billion during the same period in 2008. Likewise, other revenues decreased.

Land registration fees and property income fell 15.8% to \$421 million during the first half of 2009, opposed to \$500 million during the same period in 2008, confirming the conventional wisdom of a difficult property market. These losses, however, were offset by a 32% increase in collected taxes on income and profits for individuals and companies, totaling \$840 million. As a result, total domestic revenues, excluding grants, actually grew 2.8% to \$3.1 billion from January to June 2009, compared to \$3.01 billion in the same period in 2008. Zaghloul explained that this increase in revenue was not a true reflection of the current economic situation since taxes paid in 2009 are based on income earned in 2008, which was a relatively good year for business until the crisis hit in the fourth quarter. He projected that government revenues for the entire year would only reach about \$5.93 billion, which is \$826 million or 12% short of the \$6.76 billion in revenues originally forecasted. On top of that, Zaghloul lamented that a significant amount of

AMMAN 00001646 002 OF 003

expected grants, particularly from Saudi Arabia, have not yet materialized (ref F). Foreign grants are 63% less in the first half of 2009 than they were in the first half of 2008.

14. (C) Further examination of GOJ budget figures reveals another significant problem: growing current and capital expenditures. Current expenditures, about 50-60% of which are civil servant salaries and pensions, grew 6.1% to \$3.11 billion. More strikingly, capital expenditures saw 75% growth, to a total of \$881 million compared to \$503.4 million for the first half of 2008. Zaghloul indicated that several major infrastructure projects were implemented in 2008 that needed to be paid for in 2009 and were not included in the original budget, including \$42 million for the Disi water conveyance project, \$28 million for an infrastructure project in Zarqa \$28 million for the King Hussein Cancer Center, and \$14 million for a sewage project in southern Amman. Salem told the Ambassador that the Jordanian government had been "irresponsible" in moving forward with infrastructure projects for which it did not have any money.

What are the GOJ's Options for Reducing the Deficit?

15. (C) The GOJ is now trying to figure out a remedy for its fiscal dilemma. Zaghloul highlighted a lack of elasticity in current expenditures, explaining that politically, it would be too difficult to cut back on wages or pensions after having increased them in 2008 to help off-set then high inflation (ref G). An effort to raise revenue through a 25% sales tax on gasoline has met tough discussions in the parliament and would prove politically costly for parliamentarians in this economic environment. Zaghloul fears that capital expenditures will ultimately be affected, clarifying that ongoing projects would most likely continue but new projects might need to be stopped absent additional donor assistance. Indeed, newspapers reported on July 19 that the Ministry of Finance was actively seeking ways to cut \$239 million in capital expenditures. PM Dahabi stressed to the Ambassador that the Cabinet must now approve any capital expenditure project. Dahabi also publicly urged all ministries and public agencies to cooperate with the Finance Ministry to ensure the success of the government's plans to

control expenditures and reassess budgetary priorities.

Pleas for Donor Assistance

16. (C) Zaghloul appealed for donor help to "avoid a dangerous economic situation." He said that the Finance Ministry was already working on the 2010 budget that would help reduce the deficit and that Jordan's long-term goal according to the National Agenda was to "depend on ourselves," but he underlined that assistance was needed to get Jordan through this "exceptional year." Both Salem and Minister of Planning and International Cooperation Suhair al-Ali asked the Ambassador in separate meetings whether the majority of the \$150 million in FY09 ESF supplemental funding could be used for budget support. Taking into account legal limitations associated with the funding, USAID has agreed to allocate a maximum of 45%, or \$67.5 million, to cover U.S.-related debt through 2009 and the first half of 2010. Although this would raise the total of U.S. cash transfers to Jordan to \$229.5 million in 2009, the two Ministers have continued to push for more cash transfer assistance. Both the Ambassador and the USAID Mission Director have encouraged Jordan to seek assistance from other sources. Dahabi indicated that the GOJ approached Japan for debt relief but Japan's constitution does not allow for it, so the Japanese agreed to provide a new loan at better rates. Although the Israeli Ambassador to Jordan told the Ambassador that the Israeli government might be able to provide funds, the Jordanians have suggested that it would not be politically feasible to accept such assistance.

Comment

AMMAN 00001646 003 OF 003

17. (C) Comment: While GOJ officials have called 2009 an exceptional year, Jordan's budget has faced difficulties for some time, causing it to grow 77% over the past three years from about \$4.9 billion in 2006 to \$6.5 billion in 2007, \$8.3 billion in 2008, and \$8.69 billion in 2009. Several years of radical economic reforms including the removal of subsidies on oil derivatives and foodstuffs required the GOJ to ensure a stronger social safety net and significantly raise public sector salaries and pensions (ref G). External shocks, such as rising oil prices, high commodity prices, refugee populations, and now the global economic crisis, have also undoubtedly had some impact. But eventually the GOJ needs to stop applying Band-Aids by asking for more grants or debt relief and instead focus on making needed structural changes.

Many interlocutors have pointed to the GOJ's poor forecasting and lack of control over capital expenditures as being at the root of its budget problems. In particular, we have heard that when the King indicates a desire for a project, the ministries do everything in their power to deliver, instead of letting him know the fiscal realities. Moreover, there appears to have been a significant rise in the defense and security budget over the past few years, which is less transparent.

18. (C) Comment continued: Despite these fiscal weaknesses, other economic indicators are still solid, such as \$9 billion in foreign currency reserves, a significantly lower inflation rate, and notable decreases in the current account and trade deficits. Parliament is also currently debating some key pieces of economic legislation, such as a new investment law and a unified tax code, that could enhance Jordan's stability and improve the investment climate in the future (ref A). While the cash transfer from USAID will be useful in reducing the GOJ's external debt burden in the short-term, USAID also continues to provide longer-term assistance in fiscal reform.

The GOJ would most likely benefit from additional economic recession-related technical assistance, such as advice on cash forecasting and strategies for addressing widening fiscal gaps and revenue shortfalls, to help overcome these

immediate financial shocks and build sustainable long-term growth.

Visit Amman's Classified Web Site at
<http://www.state.sgov.gov/p/nea/amman/>

Beecroft